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Abstract
throughout the nation. It includes a summary of actions that Education has taken and that are under way to address these challenges. It also outlines further actions that GAO believes are needed. This analysis should help the new Congress and administration carry out their responsibilities and improve government for the benefit of the American people. This report is part of a special series, first issued in January 1999, entitled the Performance and Accountability Series: Major Management Challenges and Program Risks. In that series, GAO advised the Congress that it planned to reassess the methodologies and criteria used to determine which federal government operations and functions should be highlighted and which should be designated as high risk. GAO completed the assessment, considered comments provided on a publicly available exposure draft, and published its guidance document , Determining Performance and Accountability Challenges and High Risks (GAO-01-159SP), in November 2000.

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The President of the Senate
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This report addresses the major performance and accountability challenges facing the Department of Education as it seeks to ensure equal access to education and to promote educational excellence throughout the nation. It includes a summary of actions that Education has taken and that are under way to address these challenges. It also outlines further actions that GAO believes are needed. This analysis should help the new Congress and administration carry out their responsibilities and improve government for the benefit of the American people.

This report is part of a special series, first issued in January 1999, entitled the *Performance and Accountability Series: Major Management Challenges and Program Risks*. In that series, GAO advised the Congress that it planned to reassess the methodologies and criteria used to determine which federal government operations and functions should be highlighted and which should be designated as "high risk." GAO completed the assessment, considered comments provided on a publicly available exposure draft, and published its guidance document, *Determining Performance and Accountability Challenges and High Risks* (GAO-01-159SP), in November 2000.

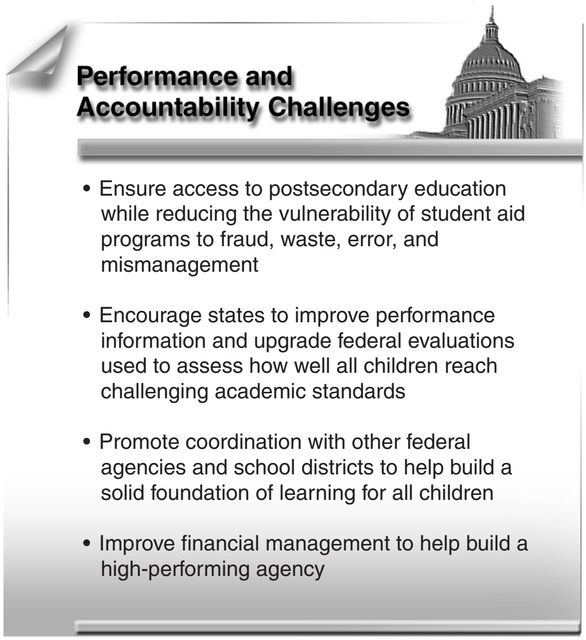
This 2001 *Performance and Accountability Series* contains separate reports on 21 agencies—covering each cabinet department, most major independent agencies, and the U.S. Postal Service. The series also includes a governmentwide perspective on performance

and management challenges across the federal government. As a companion volume to this series, GAO is issuing an update on those government operations and programs that its work identified as “high risk” because of either their greater vulnerabilities to waste, fraud, abuse, and mismanagement or major challenges associated with their economy, efficiency, or effectiveness.

David M. Walker
Comptroller General
of the United States

Overview

Americans rank education as a top national priority. The Department of Education (Education) is the primary agency responsible for overseeing the investment of the federal government in support of U.S. education. However, with a budget of $38 billion per year, Education provides a small portion—about 7 percent—of the resources used for elementary and secondary education. State and local agencies are responsible for elementary and secondary education, and Education supports and encourages their efforts to promote educational excellence. In addition, through a combination of direct loans and guarantees of private sector loans to students and their parents, as well as through grants, Education provides billions of dollars of financial aid for postsecondary education. To achieve its mission and improve the management of its programs, Education has established several strategic goals: (1) to ensure access to postsecondary education and lifelong learning, (2) to help all children reach challenging academic standards, (3) to build a solid foundation of learning for all children, and (4) to make Education a high-performing agency. However, to achieve these goals, the Department must find ways to meet several performance and accountability challenges.



Federal Financial Aid

To ensure access to postsecondary education and lifelong learning, Education administers federal grant and loan programs that help finance the higher education of millions of students. Annually, these student financial aid programs provide more than $50 billion in federal loans and grants. While these programs have been successful in providing students with access to money for postsecondary education, they have been less successful in protecting the financial interests of the federal government and U.S. taxpayers. Although the student loan default rate had declined to 6.9 percent in fiscal year 1998, student loan defaults still cost the federal government billions of dollars each year—$4.3 billion in fiscal year 1999 alone and more than

$28 billion in the last 10 years.[1] In addition, with the exception of fiscal year 1997, Education has not received an unqualified—or "clean"—opinion on its financial statements since its first agencywide audit in 1995. Since 1990, we have considered Education's student financial aid programs at high risk for fraud, waste, abuse, or mismanagement.

These programs today continue to be at risk primarily because Education lacks the financial and management information needed to manage these programs effectively and the internal controls needed to maintain the integrity of their operations. For example, because Education did not properly account for and analyze transactions for its guaranteed student loan program or properly reconcile related accounting and budgetary accounts, Education could not be assured that its financial or budgetary reports were accurate. In addition, continued weaknesses in information systems controls increase the risk of disruption in services and make Education's loan data vulnerable to unauthorized access, inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction, all of which could occur without detection.

Because of these conditions, in June 2000, GAO concluded that Education must continue to improve its ability to protect U.S. taxpayers from borrowers who fail to meet their obligations to repay their federal student loans and reduce the vulnerability of these programs to fraud, waste, abuse, and mismanagement. Also in June 2000, we reported that Education's 1999 performance report and fiscal year 2001 performance plan have no goals or objectives that directly address the reduction of fraud, waste, and error in student assistance programs. We concluded that Education should include in these

[1] Some default costs may have been recovered through collections of previously defaulted amounts.

plans measures to improve the management and oversight of these programs. After we issued our report, Education revised its strategic plan to include a performance objective of improving the integrity of the financial aid program. For that objective, the Department identified a number of strategies that have the potential to address our concerns, such as increasing oversight efforts, continuing to work on the feasibility of matching application and tax data, and demonstrating enhanced financial management. In addition, in the last 4 fiscal years (1997 through 2000), Education's Office of Inspector General (OIG) opened 1,030 fraud investigative cases and achieved 737 closures, including 268 convictions.[2]

Improving Children's Education

State and local program flexibility and limitations in Education's research and evaluation have made it difficult for the Department to gather information about outcomes in elementary and secondary education programs. Education must address these challenges to achieve the goal of assessing how well all children reach challenging academic standards by encouraging states to improve performance information and by upgrading federal evaluations.

In pursuing this goal, Education must continually balance state and local agencies' need for program flexibility with its own need for information about these programs to ensure accountability. Collecting comparable information on the outcomes of elementary and secondary education programs is difficult because

[2]During the same period, OIG also reported that its investigations resulted in filing 261 indictments and informations. An information is a formal criminal charge made by a prosecutor without a grand-jury indictment.

state and local agencies are primarily responsible for these programs and states have much flexibility in how federal funds are used and what information is reported. As a result, it is difficult to form a national picture using the information available. Department-sponsored program evaluations could provide another source of information about Education's programs, but our reviews of several evaluations indicated that the quality of evaluation designs and the usefulness of evaluation information vary. For example, Education's evaluation of the Upward Bound program used a rigorous design that yielded reliable, valid, and useful information about the effect of the program. However, its ongoing national evaluation of title I, Education's largest elementary and secondary education program—funded at $7.9 billion—has a variety of technical problems, such as the use of a small, nonrepresentative sample and the absence of a comparison group, which will limit its usefulness in assessing title I, education reform, or instructional practices. We concluded that agreement on the purpose of the study is needed before researchers can develop an adequate study design.

To help states improve the quality of state student assessment data and meet a federal mandate to report these data by six categories of children, in June 2000, GAO recommended that Education conduct additional activities to facilitate the exchange of information among states and improve the quality, timeliness, and specificity of state assessment data. These activities could help the Congress and state decisionmakers determine the extent to which various groups of children, including those who are economically disadvantaged, are reaching state standards. Education is considering options to accomplish this. We also recommended that Education implement additional measures to improve research on the effectiveness of specific services provided under title I. Education agreed with this recommendation and stated that it will initiate these activities in developing its next title I

evaluation plan. Further, in October 1999, we recommended that Education include in its research and evaluation plans studies that measure the outcomes of the migrant education program to determine the extent to which funds are helping migrant children reach challenging academic standards. In response, Education has initiated a study to assess the feasibility of including a special sample of migrant children as part of the 2002 National Assessment of Educational Progress.

Interagency Coordination

To build a sound foundation for learning, Education has to coordinate with other agencies to help ensure that children receive needed services. Although Education has primary responsibility for administering the federal investment in Education, other federal agencies may fund many of the services; for example, Health and Human Services (HHS) funds $8 billion of the $9 billion federal investment in early education and child care. Importantly, education is primarily a state and local responsibility in the United States. As a result, Education must coordinate with states and local agencies and other federal agencies to improve the services children receive and reduce the chance that children face gaps in service. For example, in several recent studies, we identified early education and migrant education as two areas where Education could improve coordination to better serve children.

Although Education administers many of the 29 programs specifically authorized to provide early childhood education and care as a primary purpose, HHS funds almost 90 percent of the federal investment in early childhood care and education. For example, HHS administers Head Start, the largest federal early childhood education program. In March 1999, we pointed out that, although Education said it planned to coordinate with other agencies, particularly HHS, it did not describe in detail how it would do so. In response to our work in this area, Education and HHS officials have

collaborated to develop shared outcome indicators and measures for preschool-aged children served by title I and Head Start; however, it is too soon to determine if these activities will result in improved services for children.

Coordination among agencies and schools is also critical to ensure that children of migrant agricultural workers—many of whom are at high risk of educational failure and need services from multiple agencies—continue to receive appropriate services when they move from one school to another. We reported in October 1999 that differences in Education's and HHS' eligibility requirements for programs targeting migrant children create service gaps and recommended that HHS harmonize its definition of migrant children with Education's to help close these gaps. We also concluded that gaps in coordination between school districts could disrupt services for migrant children. Such disruptions include creating delays in providing needed services or causing children to receive unnecessary repeated immunizations to meet school registration requirements when the districts receiving the children do not have the children's records or information about whom to contact for records. To correct this problem, we recommended that Education work with states to develop nationwide systems to transmit essential information about migrant students as they move between school districts. Education agreed with this recommendation and has reserved funding to support the technical and operational aspects of an interconnected system.

Financial Management

Weaknesses in Education's financial management systems limit Education's ability to build a high-performing agency. At this time, the Department continues to face serious financial management challenges that hinder its ability to (1) obtain timely and complete financial information; (2) decrease

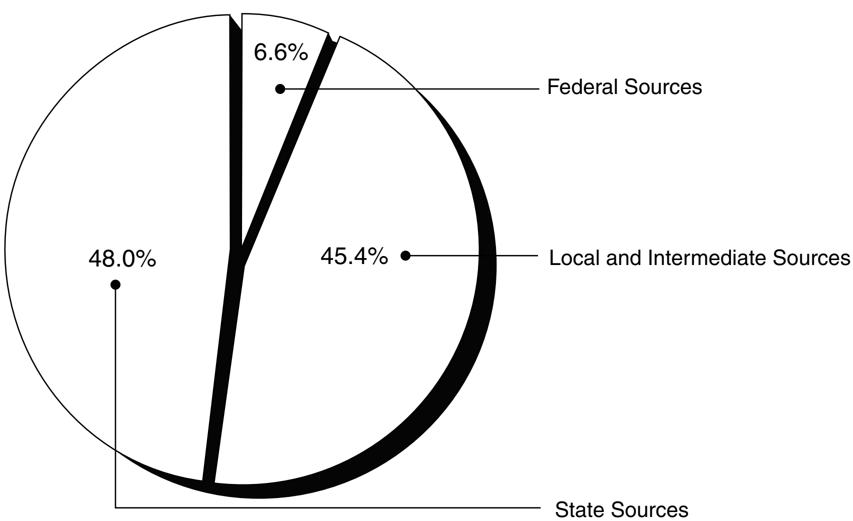
vulnerability to fraud, waste, and mismanagement; (3) ensure adequate accountability to taxpayers; (4) manage for results; and (5) help decisionmakers make timely and informed judgements. For example, beginning with Education's first agencywide audit in 1995, auditors have repeatedly identified significant financial management weaknesses. Education's fiscal year 1999 financial statement audit disclosed continuing weaknesses that have prevented the agency from receiving a "clean" audit opinion. In addition, weaknesses in the financial management system affect the Department's student financial aid programs by, for example, hindering the timely detection and correction of errors in the student financial aid database and the production of reliable and useful information on student financial aid.

In August 2000, we reported that Education grant funds were increasingly vulnerable to fraud, waste, and mismanagement because of weaknesses in its financial management system—specifically, inadequate fund control mechanisms, weak internal controls, and the inappropriate use of a deposit fund. We concluded that Education has planned and begun implementing many actions to resolve its financial management weaknesses, such as purchasing a new general ledger system, acquiring new software tools, improving internal controls, and establishing a process to return excess funds to the Treasury. However, it is too soon to determine if these measures will be effective.

Major Performance and Accountability Challenges

Americans rank education as a top national priority. The Department of Education leads the federal government's efforts to promote educational excellence and to ensure equal access to education throughout the nation. With a staff of about 4,700 and a budget of about $38 billion per year, Education has some 175 programs that support activities for individuals from infancy throughout adulthood. Although its programs have the potential to influence all students in the United States, as shown in figure 1, federal sources provide less than 7 percent of the total government resources used nationwide for public elementary and secondary education. State and local agencies are primarily responsible for elementary and secondary education.

Figure 1: Public Elementary and Secondary Education Revenues by Source, School Year 1996-1997



Source: United States Department of Education

In addition, through a combination of direct loans and guarantees of private sector loans to students and their parents, as well as through grants, Education provides billions of dollars of financial aid for postsecondary education and thus has increased access to postsecondary education for millions of students.

Ensure Access to Postsecondary Education While Reducing the Vulnerability of Student Aid Programs to Fraud, Waste, Error, and Mismanagement

Through federal grant and loan programs administered by Education, millions of students who might not otherwise have had access to higher education have been able to enroll in postsecondary educational programs of their choice. These federal programs are the largest source of student aid in the United States, currently providing a total of about $53 billion in federal student aid grants and loans to nearly 8.1 million students and parents.

These student aid programs, however, continue to be at high risk for fraud, waste, error, and mismanagement because Education lacks the financial and management information needed to manage these programs effectively and the internal controls needed to maintain the integrity of their operations (see the discussion of financial management, below). For example, because Education did not properly account for and analyze transactions for its guaranteed student loan program or properly reconcile related accounting and budgetary accounts, Education could not be assured that its financial or budgetary reports were accurate. In addition, continued weaknesses in information systems controls increase the risk of disruption in services and make Education's loan data vulnerable to unauthorized access, inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction, all of which could occur without detection. With the exception of fiscal year 1997, Education has not received an unqualified—or "clean"—opinion on its financial statements since its first agencywide audit in 1995.

Moreover, these programs operate independently with different rules, processes, and data systems and involve millions of students, thousands of schools, and thousands of lenders, guaranty agencies, third-party servicers, and contractors. Because of problems related to these long-standing conditions, in 1990 we designated Education's financial aid programs at high risk for fraud, waste, abuse, or mismanagement. This high-risk designation remains.

Although serious weaknesses remain, Education has addressed many of the issues we discussed in our series of reports on high-risk programs. For example, the national student loan default rate is the lowest ever—6.9 percent for fiscal year 1998, the most recent year for which data are available. This lower default rate is especially noteworthy considering that the dollar amount of loans has tripled and the number of loans has doubled since 1990. The lower default rate has been attributed to a robust economy, better management by Education, tougher enforcement tools authorized by the Congress, and stepped up efforts by colleges, lenders, guaranty agencies, and other participants in the federal loan program. Education has also been pursuing those suspected of defrauding the federal government. For example, in the last 4 fiscal years (1997 through 2000) Education's OIG opened 1,030 fraud investigative cases and achieved 737 closures, including 268 convictions and pleas.[1]

Despite the reduction in default rates, the risk of default continues to place taxpayers at risk, and the downward turn in default rates may not continue if economic conditions decline. Further, the annual costs of defaults remain substantial. In fiscal year 1999, the default cost for the Federal Family Education Loan Program

[1]During the same period, the OIG also reported achieving 261 indictments and informations.

(FFELP) and Federal Direct Loan Program (FDLP) was about $4.3 billion; the default cost since 1990 has been more than $28 billion.[2]

In July 1999, we reported that the method used by Education to calculate schools' default rates[3] understates the default rate, and we proposed an alternative, more appropriate method. We suggested that the Congress may wish to consider amending the Higher Education Act of 1965 to exclude from the annual calculation of school default rates borrowers who have loans in deferment or forbearance by the end of the 2-year cohort default period (a cohort consists of a group of borrowers who began repaying their loans during a given fiscal year). Further, we suggested that the Congress may wish to require that borrowers excluded from a cohort's default rate calculation due to an authorized deferment or forbearance are included in a future cohort after they have resumed making payments on their loans.

Education has improved its databases containing information about students receiving financial aid and its process for certifying schools to participate in federal student aid programs. However, Education's OIG has recently noted that the Department's process for recertifying foreign schools is ineffective. Also, in a separate study of the case management and oversight of all participating institutions, the OIG has recently found that proper controls were not in place to ensure the

[2]Some default costs may have been recovered through collections of previously defaulted amounts.

[3]The issue involves borrowers who have temporary approval through their lenders or loan servicers for "deferment" or "forbearance," that is, they can delay payments on their loans. In Education's calculation of a school's default rate, these borrowers are not counted as defaulters, but they do count as a part of the total number of borrowers. The number of borrowers in default is divided by a number larger than the total number of borrowers who are actually repaying their loans. As a result, the default rate is understated.

effective use of program reviews. These program reviews are intended to monitor and improve institutional performance and compliance with title IV requirements. The outcome of such reviews may determine whether an educational institution is recertified to participate in federal student aid programs.

The Department is improving its procedure for obtaining and verifying the eligibility information used to prevent student loan fraud. However, further improvements to prevent fraud are needed. As we reported in September 2000, the problem is that neither Education nor individual institutions such as colleges and universities that check the accuracy of student financial aid applications have access to third-party data sources to independently verify most applicants' family income before disbursing loan and grant payments. Education's OIG, which traced a sample of income data from applications that institutions had verified, documented weaknesses in the verification process. While Education's verification procedures—such as computer checks to identify error-prone applications—are reasonable for detecting and correcting mistakes on applications, they cannot identify students who intentionally underreport family income.

In the 1998 amendment to Title IV of the Higher Education Act, the Congress instructed Education and the Internal Revenue Service (IRS) to cooperate in verifying students' income to prevent loan fraud. Subsequently, in September 2000, we determined that Education could obtain eligibility information by matching automated computer files and accessing online databases from the IRS. The two agencies are currently conducting two pilot projects to match Education and IRS data. If the pilots are successful and if IRS grants Education permission to receive summary taxpayer information for use in verifying data provided on loan applications, Education could use enhanced

data sharing to make more timely and accurate eligibility determinations.

While Education's performance plans for fiscal year 1999 through fiscal year 2001 address most of the Department's key outcomes, none of its goals or objectives directly address fraud, waste, and mismanagement in its financial management system or the high-risk status of its student financial aid programs. Because these vulnerabilities potentially pose high costs to the federal government and America's taxpayers, we concluded in a June 2000 report that Education should develop performance goals, objectives, and measures that directly relate to the management and oversight of its financial system and student loan programs. After we issued our report, Education revised its strategic plan to include a performance goal of improving the integrity of the financial aid program. For that goal, the Department has not developed objectives and measures although it has identified a number of strategies that have the potential to address our concerns, such as increasing oversight efforts, continuing to work on the feasibility of matching application and tax data, and educating the foreign school community about program requirements.

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Encourage States to Improve Performance Information and Upgrade Federal Evaluations Used to Assess How Well All Children Reach Challenging Academic Standards

Education continues to face significant challenges in demonstrating whether its programs are meeting their goals and, consequently, cannot always provide to the Congress and other decisionmakers the information they need to make decisions about how well these programs operate and the level at which they should be funded. These challenges stem, in part, from the flexibility that state and local agencies have in determining how federal funds are used for elementary and secondary education and what information is reported. In addition, states have different standards and assessment systems and test students at different times of the year and at different grade levels. Consequently, it is difficult for Education to collect comparable information about programs and combine information from the states into a national picture. The lack of comparable state data underscores the importance of federal program evaluations to assess program outcomes, but in our review of three large-scale evaluations, we have found that the usefulness of the information provided by these evaluations varies.

Useful information about large federal programs, such as title I, is particularly important. However, several states have experienced difficulty collecting and reporting information about their students' performance in the manner required by law. Funded at $7.9 billion, title I is the Department's largest elementary and secondary program. Title I legislation requires states to collect assessment results separately for six specific categories of children (by gender group, racial and ethnic group, migrant status, disability status, English proficiency status, and economic status) by the 2000-2001 school year. State and Education officials plan to use these data to demonstrate the extent to which all children, including children belonging to groups that are at risk of educational failure, are meeting state standards. Although some information on student achievement will soon be available from most states,

some states have experienced difficulty in collecting and reporting data by the six categories.

To help states improve the timeliness and specificity of their assessment data, the collection and reporting of disaggregated data, and the clarity of their criteria for adequate progress, in June 2000, we recommended that Education conduct additional activities to facilitate the exchange of information and best practices among states. As a result, Education is reviewing options to improve its technical assistance to states and is considering ways to facilitate the exchange of student assessment information.

Because of the challenges in gathering comparable data on program outcomes from states, Education routinely funds large-scale program evaluations. Given that both Education and Congress depend on these evaluations for information about how programs are working on a national level, it is incumbent on the Department to ensure that these studies are well designed and produce useful information. Our reviews of several of these evaluations indicated that the usefulness of their results depended on how well they were designed.

For example, in September 2000, we reported that Education's evaluation of its Upward Bound program provided reliable and valid information that deepened the Department's understanding of how the program was working. This evaluation incorporated sound design strategies, such as the use of a control group to make comparisons between participating students and nonparticipating students, as well as random selection, so that the effects of the program could be determined. We also reported that the results of this evaluation could be used to make decisions about who is targeted for this program and the length of their participation.

In addition, at the request of the Congress, we examined two studies that gathered information on title I students. The first, Prospects: The Congressionally Mandated Study of Educational Growth and Opportunity, was conducted to help Congress with the 1994 reauthorization of title I, which was completed in 1997. The second, the ongoing Longitudinal Evaluation of School Change and Performance (LESCP), is currently being conducted to help with the impending reauthorization.

As we reported in August 2000, Prospects had a rigorous and comprehensive design and collected information that allowed decisionmakers to draw conclusions about the effects of title I. In contrast, we emphasized that limitations of the design of the LESCP study—particularly the study's small, nonrepresentative sample—will restrict decisionmakers' ability to draw strong conclusions from its data. We further explained how the lack of agreement about LESCP's purpose created unclear expectations for the study and will make it difficult to predict the degree to which the final report will be useful in assessing title I, education reform, or instructional practices. We concluded that agreement on the purpose of the study is needed before researchers can develop an adequate study design that will allow efficient data collection, appropriate analyses, and generalizable results.

In June 2000, we recommended that Education implement additional actions to improve research on the effectiveness of specific services in title I schoolwide and targeted assistance programs—two different approaches to serving children in schools eligible for title I. We said that such actions could include expanding and improving current data collection efforts or designing an evaluation for a study or set of studies of educational services. Education agreed with this recommendation and stated that it will initiate these activities in developing its next title I evaluation plan.

In another example, Education has no data on the outcomes of its migrant education program, which serves children who are extremely vulnerable for educational failure. In 1996, the migrant program provided direct services to more than 600,000 students. In our October 1999 review of migrant education programs, we recommended that Education include studies to measure outcomes of its migrant education program as part of ongoing national data collection. We acknowledged that the cost of studies that include nationally representative samples of migrant students might be prohibitive. However, we explained to Education that the majority of migrant students are located in a small number of states where they reside for considerable periods of time. We recommended that Education's future data collection activities include a special sample of migrant children in these states. Education agreed with our recommendation and is exploring strategies to assess a special sample of migrant children as part of the 2002 National Assessment of Educational Progress.

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Promote Coordination to Help Build a Solid Foundation of Learning for All Children

Education is the lead federal agency on education but is only one of many federal, state, and local agencies supporting education. To improve the services children receive and reduce the chance that children face gaps in service, Education needs to promote coordination among federal agencies and with states and local agencies. This is especially important when other federal agencies fund most of the services. For example, HHS funds almost 90 percent of the federal investment in early education and care. Coordination with states

and local entities is also critical because education is primarily a state and local responsibility. Education has improved its interagency coordination; however, in several recent studies, we identified early education and migrant education as two areas where Education could improve coordination to better serve children.

Education's ability to play a leadership role in coordinating early childhood education is complicated because most of the resources that support these programs come from other agencies. Although Education administers most of the 29 federal programs that are authorized to provide early education and care as their primary purpose, HHS administers most of the funding. Of the $9 billion that the federal government invests in early childhhood education and care, $8 billion is allocated to HHS to support three of its programs—Head Start, Child Care and Development Fund (CCDF), and Temporary Assistance for Needy Families (TANF) block grants.

Education has highlighted early childhood programs as a major area of departmental concern because early learning opportunities for children have consequences for long-term success; research on early brain development reveals that if some learning experiences are not introduced to children at an early age, the children will find learning more difficult later; children who enter school ready to learn are more likely to achieve high standards than children who are inadequately prepared; and high-quality preschool and child care are integral in preparing children adequately for school.

In March 1999, we pointed out that although Education said it planned to coordinate with other agencies, particularly HHS, it did not describe in detail how it would do so. In response to our work in this area, Education and HHS officials have collaborated to

develop shared outcome indicators (e.g., children will leave kindergarten ready to learn to read) and measures (e.g., identifying every letter of the alphabet) for preschool-aged children served by title I and Head Start, but it is too soon to tell if these efforts are sufficient to improve services for children.

Migrant education is another area where Education can promote coordination to improve services for children. In 1999, Education became involved in an interagency group comprised of the federal directors of programs that work with migrant education, health, and labor issues. This group was formed to increase coordination and collaboration among programs serving migrant children and their families. Although this interagency effort holds promise and includes both HHS and the Department of Labor, coordination challenges remain.

Our October 1999 report on education programs for migrant children illustrated how differences in Education's and HHS' eligibility requirements for programs targeting migrant children create service gaps, impede service coordination, and complicate transitions between programs. We recommended that HHS harmonize its Migrant Head Start eligibility requirements with those of the Migrant Education Program.

Because states and local governments bear major responsibilities and provide most of the educational funding for these students, in October 1999, we recommended that Education work with states to help them develop a nationwide system to permit the exchange of essential data about migrant children as they move from school to school. Such a system would reduce the risks of migrant children receiving unneeded duplicative immunizations to meet school entrance requirements and experiencing disruptions in needed services. Education agreed with this recommendation

and has reserved funding to support technical and operational aspects of an interconnected system.

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Improve Financial Management to Help Build a High-Performing Agency

Weaknesses in Education's financial management and information systems limit the Department's ability to achieve one of its key goals—improving financial management to help build a high-performing agency. Beginning with the Department's first agencywide audit in 1995, Education's auditors have repeatedly identified significant financial management weaknesses. Education's fiscal year 1999 financial statement audit disclosed continuing weaknesses that have prevented the agency from receiving a "clean" audit opinion. The range of Education's internal control weaknesses hampers its ability to generate reliable, useful, and timely information on an ongoing basis to ensure accountability to taxpayers. Although Education has planned and begun implementing many actions to resolve its financial management weaknesses, it is too soon to determine if these will prove effective or if the Department will continue to face serious financial management challenges.

Specifically, auditors reported material internal control weaknesses relating to (1) the inability to prepare routine financial reports, (2) the lack of proper or timely reconciliation of accounting records, (3) failure to return about $2.7 billion in net collections from FFELP to the Treasury in accordance with the Federal Credit Reform Act (FCRA) of 1990, (4) vulnerabilities in information systems that could result in unauthorized

access to sensitive information and disruption in services, and (5) the inappropriate manner in which the agency used a deposit fund established to return funds to grant recipients.

For fiscal year 1999, as in prior years, Education did not have adequate internal controls over its financial reporting process. Education's financial reporting weaknesses can be attributed primarily to several limitations of a new accounting system that Education implemented during fiscal year 1998. A significant limitation of this new accounting system was its general ledger system, which was unable to perform an automated year-end closing process and directly produce consolidated financial statements. Because of these system weaknesses, Education had to resort to a labor-intensive and time-consuming process involving automated and manual procedures to prepare its fiscal year 1999 financial statements.

Additionally, during fiscal year 1999, Education did not perform an adequate or timely reconciliation of the differences between its financial accounting records and cash transactions reported by Treasury. Treasury policy requires agencies to reconcile their accounting records with relevant Treasury records, similar to the way in which individuals reconcile their checkbooks to monthly bank statements. For fiscal year 1999, there was a $244 million difference between Treasury's and Education's records; Education adjusted its "Fund Balance with Treasury" account without determining the causes of the differences. Weaknesses in Education's internal controls over the reconciliation process prevented timely detection and correction of errors in its underlying accounting records. Without reliable timely data in its accounting records, the risk of fraud, waste, and mismanagement of funds is increased.

Because it did not properly account for and analyze its FFELP transactions or properly reconcile related accounting and budgetary accounts consistent with FCRA, Education could not be assured that its financial or budgetary reports were accurate. These problems diminish the potential that these reports will help the Congress and others understand how Education spent program funds. For example, during fiscal year 1999, Education did not transfer about $2.7 billion in unobligated balances in its liquidating account for FFELP loans to the Treasury's general fund as required by FCRA. Further, Education did not sufficiently analyze the balances reflected on the financial statements to ensure that the FFELP balances agreed with relevant balances in the Department's budgetary accounts. For the liquidating account, the auditors identified an unexplained difference of about $700 million between the FFELP and budgetary accounts as of September 30, 1999.

Further, Education's auditors reported that the Department had deficiencies in its information systems controls. These controls included (1) implementing user management controls, such as procedures for requesting, authorizing, and revalidating access to computing resources; (2) monitoring and reviewing access to sensitive computer resources; (3) documenting approach and methodology for the design and maintenance of its information technology architecture; and (4) developing and testing a comprehensive disaster recovery plan to ensure the continuity of critical system operations in the event of disaster. Continued weaknesses in information systems controls increase the risk of disruption in services and make Education's sensitive grant and loan data vulnerable to unauthorized access, inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction, all of which could occur without detection.

Education also did not perform routine reconciliations of its grant payments system with the general ledger. Although no improper payments were identified, the auditors noted that reconciliations were not routinely performed because Education had not developed adequate policies and procedures for doing so. As a result, we reported in August 2000 that there was increased risk that material errors or irregularities could occur and would not be detected in a timely manner. In addition, Education has not maintained adequate records in cases where grant funds are returned to the Department. Grant recipients who meet certain thresholds[4] are audited to test their compliance with grant requirements. If audits identify certain types of noncompliance, recipients must repay Education the amount related to the noncompliance; that is, they have to give the grant funds back to Education. These funds—from all grants—are put in one account, called the grantback account.[5] We found that Education was not managing the grantback account properly. For example, we found that, beginning in 1993, Education inappropriately used the grantback account as a suspense account to hold hundreds of millions of dollars worth of transactions. Because Education did not maintain adequate detailed records for certain grantback activity, Education could not readily identify the specific grants from which the various grantback transactions came. Such documentation is needed as a part of a funds control system to ensure compliance with the Anti-Deficiency Act, which requires agencies to prevent possible overobligation or overexpenditures

[4]The requirements apply to grant recipients who annually expend federal awards of $300,000 or more (or receive awards of $100,000 or more prior to June 1997).

[5]The grantback account was established to retain funds to make grantback payments and to account for grantback activity. If the grant recipient meets certain conditions, including correcting the noncompliance, Education may return up to 75 percent of the amount recovered in the form of grantback payments.

and to report to the President and the Congress if these conditions occur.

Education has taken various corrective actions in response to the material financial management weaknesses identified in its fiscal year 1999 financial statement audit. Key corrective actions include purchasing a new general ledger system, acquiring a software tool to help automate the reconciliation process, improving controls over access to computer resources, and establishing a process to return certain excess FFELP funds to Treasury. While Education actively has taken steps to reduce its financial management problems, it is too early to tell whether the Department will be successful. It is critical that Education resolve these challenges to generate reliable, useful, and timely information on an ongoing basis to ensure adequate accountability to taxpayers, manage for results, and help congressional and program decisionmakers make timely, well-informed decisions. Furthermore, it is also essential that Education recognize the importance of a continuing strong commitment to attain a “clean” or unqualified audit opinion on its financial statements. Acquiring an unqualified audit opinion is the first step in achieving sound financial management.

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